REPORT BY THE AUDITOR GENERAL OF CALIFORNIA

STATE OF CALIFORNIA STATEMENT OF SECURITIES ACCOUNTABILITY OF THE STATE TREASURER'S OFFICE JUNE 30, 1990

REPORT BY THE OFFICE OF THE AUDITOR GENERAL

F-004

STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1990

FEBRUARY 1991



Telephone: (916) 445-0255

STATE OF CALIFORNIA

Office of the Auditor General

660 J STREET, SUITE 300 SACRAMENTO, CA 95814

February 28, 1991

F-004

Kurt R. Sjoberg

Auditor General (acting)

Honorable Robert Campbell, Chairman Members, Joint Legislative Audit Committee State Capitol, Room 2163 Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its financial audit report of the State Treasurer's Office Statement of Securities Accountability as of June 30, 1990.

The Statement of Securities Accountability presents the securities owned by or pledged to the State directly or under investment agreements and securities held for safekeeping. The State Treasurer's Office is responsible for the safekeeping of all securities held in the treasury or other depositories except for securities owned by or pledged to the University of California, or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Teachers' Retirement System, the Legislators' Retirement System, or the Judges' Retirement System. For the Statement of Securities Accountability, the State Treasurer's Office assigns dollar amounts to each security for ease of accountability rather than for purposes of valuing securities to cost or market. The dollar amounts assigned represent the par or face value, the original face value, the original principal value, the current outstanding principal balance, or a nominal value of \$1 per certificate or note. Therefore, the dollar amounts presented in the Statement of Securities Accountability should not be used to determine the value of investments of, or pledged to the State. We found that the statement presents fairly the securities accountability of the State Treasurer's Office as of June 30, 1990.

We conducted this audit to comply with the California Government Code, Section 13299.1.

Respectfully submitted.

KURT R. SJOBERG

Auditor General (acting)

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INDEPENDENT AUDITOR'S REPORT

Kurt R. Sjoberg Auditor General (acting)

We have audited the accompanying statement of securities accountability as of June 30, 1990. This statement of securities accountability is the responsibility of the State Treasurer's Office. Our responsibility is to express an opinion on the statement of securities accountability based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accompanying statement of securities accountability is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of securities accountability. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of securities accountability. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code as discussed in Note 1 and is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the statement of securities accountability referred to above presents fairly, in all material respects, the securities accountability of the State Treasurer's Office as of June 30, 1990, in conformity with the basis of accounting described in Note 1.

This report is intended solely for the purpose of providing information required by Section 13299.1 of the California Government Code and should not be used for any other purpose.

OFFICE OF THE AUDITOR GENERAL

CURT DAVIS, CPA

Deputy Auditor General

Date: February 19, 1991

Staff: Sally L. Filliman, CPA, Audit Manager

William W. Shepherd, CPA

Margarita Fernandez Cuomo, CPA

STATE OF CALIFORNIA STATEMENT OF SECURITIES ACCOUNTABILITY OF THE STATE TREASURER'S OFFICE JUNE 30, 1990

Account Title Pooled Money Investment Account	Securities and Investment Agreements in the Vault of the State Treasurer's Office	Securities on Deposit With Banks and Trust Companies	Securities <u>in Transit</u>	Total
Securities (Note 2)	\$ 495,000,000	\$15,553,339,880		\$16,048,339,880
Individual State Investment Accounts				
Antioch and Carquinez Strait Bridge Toll Revenue Fund California Housing Finance Agency California National Guard	126,766,847	3,175,000 104,423,322 2,276,000		3,175,000 231,190,169 2,276,000
California Pollution Control Financing Authority		36,682,200		36,682,200
Central Valley Water Project Construction Fund Central Valley Water Project		206,495,700		206,495,700
Revenue Fund Water Resources, Department of First-Time Home Buyers Fund Legislators' Retirement System	199,280 9	187,506,800 173,658,500		187,506,800 173,658,500 199,280 9
Los Angeles State Office Building Authority Public Employees' Retirement System Special Deposit Fund - Alice Burch	52,720,564 9,272			52,720,564 9,272
Trust Fund State Compensation Insurance Fund State Controller's Office State Lottery Fund State Public Works Board Toll Bridge Construction Fund Veterans' Debenture Revenue Fund Veterans' Farm and Home Building Fund	2,000 286,457,932 103,977,876 3,844,659 565,756,057	18,000 4,112,494,943 220,000 2,164,137,000 27,199,000 50,478,700 312,773,000	\$218,000	20,000 4,399,170,875 220,000 2,164,137,000 131,176,876 54,323,359 878,529,057
of 1943	45,587,830	15,805,700		61,393,530
Total Individual State Investment Accounts	1,185,322,326	7,397,343,865	218,000	8,582,884,191
<u>Collateral To Secure Deposits in Banks</u> <u>and Savings and Loans</u>				
Agency bank deposits State Treasurer's Office bond proceeds State Treasurer's Office demand deposits State Treasurer's Office time deposits	5,185,000 60,936,250 45,387,481	143,102,052 426,905,222 398,239,771 1,904,202,422		148,287,052 426,905,222 459,176,021 1,949,589,903
Total Collateral To Secure Deposits in Banks and Savings and Loans	111,508,731	2,872,449,467		2,983,958,198
Pledges Received by State Agencies				
State Banking Department Consumer Affairs, Department of Corporations, Department of Deposit Officer Pending	7,643,513 15,612,028 2,947,367	43,138,997 15,000 229,250		50,782,510 15,627,028 2,947,367 229,250

Account Title Pledges Received by State Agencies (Continued)	Securities and Investment Agreements in the Vault of the State Treasurer's Office	Securities on Deposit With Banks and Trust Companies	Securities <u>in Transit</u>	Total
Employment Development Department Board of Equalization Franchise Tax Board	69,776,844 135,000 222	989,350		70,766,194 135,000 222
Health Services, Department of Industrial Relations, Department of Insurance, Department of Real Estate, Department of	1,000,000 86,218,153 2,969,801,732 2,200,000	38,920,000		1,000,000 125,138,153 2,969,801,732 2,200,000
State Lands Commission Transportation, Department of Trustees of California State University Water Resources Control Board Water Resources, Department of	9,676,839 27,054,600 2,970,583 810,142 2,055,000	52,000 11,520,000		9,728,839 38,574,600 2,970,583 810,142 2,055,000
Total Pledges Received by State Agencies	3,197,902,023	94,864,597		3,292,766,620
General Safekeeping				
Alan Gene Whitaker Reimbursement Fund Corrections, Department of	1	1,071		1 1,071
Developmental Services, Department of Education, State Department of Housing and Community Development,	3,527 10,779	1,200,000 32,000		1,203,527 42,779
Department of Quimby Island Reclamation District Rehabilitation, Department of	4 156 10,219			4 156 10,219
Secretary of State State Controller's Office State Treasurer's Office - Bearer bonds exchanged for	10,000 12,634,290			10,000
registered bonds Trust accounts Trustees of California State University	1,703,748,000 98,452,166 3,500			1,703,748,000 98,452,166 3,500
Total General Safekeeping	1,814,872,642	1,233,071		1,816,105,713
Total Securities	\$6,804,605,722	\$25,919,230,880	\$218,000	\$32,724,054,602

The accompanying notes are an integral part of this statement.

NOTES TO THE STATEMENT OF SECURITIES ACCOUNTABILITY OF THE STATE TREASURER'S OFFICE

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code and presents the securities owned by or pledged to the State directly or investment agreements and securities held safekeeping. The State Treasurer's Office (STO) must account for all securities held in the treasury or other depositories, except for securities owned by or pledged to the University of California or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Retirement System, the Legislators' Retirement System, or the Judges' Retirement System. The securities for which the STO is accountable are categorized as follows:

- Pooled Money Investment Account (PMIA) securities consist of deposits or investments with financial institutions. The deposits or investments are purchased with available money from the State's General Fund, the Surplus Money Investment Fund, the Local Agency Investment Fund, and the Fish and Game Preservation Fund. The California Government Code, Section 16480.1, authorizes the State's Pooled Money Investment Board to designate the amount of available money to make such deposits or investments. In addition, Section 16480.2 expresses the intent that such deposits or investments realize the maximum return consistent with safe and prudent treasury management;
- Individual state investment accounts consist of investments with financial institutions. State agencies that do not invest through the PMIA purchase these investments with available money;
- Collateral to secure deposits in banks and savings and loan associations consists of securities pledged by these institutions to protect the money that the State has on deposit with the institutions;

- Pledges received by state agencies consist of securities pledged to the State by certain businesses to protect consumers, to guarantee contractor performance, and to ensure payment of state taxes; and
- General safekeeping amounts consist of securities held in the vault of the STO, held by other depositories, or held on behalf of state agencies.

B. Valuation of Securities

In the accompanying statement of securities accountability, the STO does not report securities at either book value or market value in accordance with generally accepted accounting principles. Instead, the STO values securities as follows:

<u>Securities and Investment Agreements in the Vault of the State Treasurer's Office:</u>

- Bonds, commercial paper, certificates of deposit, and surety bonds are valued at par value or face value;
- Stock certificates are valued at \$1 per share;
- Government National Mortgage Association certificates, Federal National Mortgage Association certificates, and Federal Home Loan Mortgage Corporation certificates are valued at outstanding principal balances;
- Real estate mortgage notes held as investments of individual state accounts are valued at \$1 per note; and
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their original principal balances.

Securities on Deposit With Banks and Trust Companies:

- Bonds, commercial paper, certificates of deposit, surety bonds, Federal National Mortgage Association certificates (except participation certificates), and Federal Home Loan Mortgage Corporation certificates (except participation certificates) are valued at par value or face value;

- Federal National Mortgage Association participation certificates and Federal Home Loan Mortgage Corporation participation certificates are valued at their current outstanding principal balances;
- Government National Mortgage Association physical certificates are valued at original face value;
- Government National Mortgage Association book entry certificates are valued at their current outstanding principal balances;
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their original principal balances; and
- Real estate mortgage notes held as pledges to secure bank and savings and loan court and private trusts are valued at their current outstanding principal balances.

2. Pooled Money Investment Account - Securities

The STO reported a total value of \$16,048,339,880 for the securities in the PMIA at June 30, 1990. The STO reported a total value of \$15,416,201,317 for these same securities in its statement of cash accountability for June 30, 1990. The difference between the two values results because the STO valued the PMIA securities in the statement of securities accountability according to the methods described in Note 1.B. but valued the same securities at book value for the statement of cash accountability.

3. Personal Property

In addition to depositing securities, state agencies deposit personal property in the vault of the STO. The following lists entities having personal property in the vault as of June 30, 1990:

Entity	Number <u>of Items</u>
Emergency Stock - Trust Agency Checks	69,995
Motor Vehicles, Department of	2,330
Personnel Administration, Department of	3
State Controller's Office	84
State Treasurer's Office	69
Total	<u>72,481</u>

Each item or sealed package of personal property is counted individually. However, because personal property items are not securities, they are excluded from the statement of securities accountability.

Members of the Legislature Office of the Governor cc:

Office of the Lieutenant Governor

State Controller Legislative Analyst

Assembly Office of Research Senate Office of Research

Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps